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THE BUDGETARY TREATMENT OF
PERSONAL RETIREMENT ACCOUNTS

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Abstract
Several Members of Congress, groups, and individuals have proposed reforms to Social Security that would involve personal retirement accounts (PRAs). Some of those proposals would require workers or employers to make payments to PRAs. The compulsory payments would either replace or be in addition to current Social Security payroll taxes. Other proposals would allow workers to direct a portion of their Social Security payroll tax or federal income tax payments to PRAs or voluntarily contribute to the accounts from their own funds. Several proposals would have the government deposit funds into PRAs established for the workers benefit. Social Security reforms that would involve PRAs generally would give individual workers some choice about how the money in their account was invested and would permit them to withdraw the funds after retirement. Under some proposals, the federal government would administer the PRAs; under others, the private sector would do so. This paper examines the issues related to the treatment of personal retirement accounts in the federal budget, focusing on proposals involving PRAs made during the 105th Congress, which was in session in 1997 and 1998.

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PREFACE

This Congressional Budget Office (CBO) paper was prepared as part of CBO's continuing analyses of federal budget concepts and Social Security reform proposals. It analyzes the budgetary treatment of proposals involving personal retirement accounts.

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SUMMARY AND INTRODUCTION

Several Members of Congress, groups, and individuals have proposed reforms to Social Security that would involve personal retirement accounts (PRAs). Some of those proposals would require workers or employers to make payments to PRAs. The compulsory payments would either replace or be in addition to current Social Security payroll taxes. Other proposals would allow workers to direct a portion of their Social Security payroll tax or federal income tax payments to PRAs or voluntarily contribute to the accounts from their own funds. Several proposals would have the government deposit funds into PRAs established for the workers' benefit. Social Security reforms that would involve PRAs generally would give individual workers some choice about how the money in their account was invested and would permit them to withdraw the funds after retirement. Under some proposals, the federal government would administer the PRAs; under others, the private sector would do so. This paper examines the issues related to the treatment of personal retirement accounts in the federal budget, focusing on proposals involving PRAs made during the 105th Congress, which was in session in 1997 and 1998.

How the Budgetary Treatment of Legislation Is Determined

The Congressional Budget Office (CBO) has been asked to analyze the economic and budgetary effects of a number of Social Security reform proposals involving PRAs. CBO typically includes its views about the budgetary treatment of legislation in the cost estimates it prepares for bills that authorizing committees report to the House or Senate. CBO reaches judgments about budgetary treatment issues using two sources of guidance: the 1967 *Report of the President's Commission on Budget Concepts* and a large body of budgetary precedents. CBO's role is strictly advisory; decisions about the budgetary treatment of legislation are up to the Congress and the President.

After the Congress has passed a bill and the President has signed it into law, the Office of Management and Budget (OMB) determines how the President's annual budget submissions will record the transactions related to the legislation. CBO and OMB frequently differ about the budgetary costs of legislation, but to avoid confusion, CBO accepts as final OMB's determinations of the budgetary treatment of bills enacted into law. Nonetheless, OMB, CBO, and the House and Senate Budget Committees review the budgetary treatment of federal programs from time to time. Such reviews occasionally lead to changes in budgetary treatment.

Social Security reform proposals involving PRAs raise two issues about their treatment in the budget. First, what is the appropriate treatment of payments made into the accounts? That issue is easily resolved with respect to proposals in which either compulsory payments would be made to federally administered PRAs or voluntary payments would be made to federally or privately administered accounts.

The *Report of the President's Commission on Budget Concepts* and the budgetary treatment of the Thrift Savings Fund, which comprises the accounts of federal employees who participate in the Thrift Savings Plan (TSP), provide clear guidance about those proposals. Determining the appropriate treatment for proposals that would require workers and employers to make payments to privately administered PRAs is not so straightforward. Neither the commission's report nor budgetary precedent sheds light on the appropriate treatment of payments mandated by federal law that the government does not collect. CBO must therefore reach a judgment after considering all of the relevant features of a proposal in light of the recommendations of the commission.

Second, what is the appropriate treatment of PRAs themselves—their balances and transactions with the public? That issue is easy to resolve with respect to proposals in which the accounts would be privately owned. However, under several proposals made during the 105th Congress, judging whether the PRAs would be privately owned is not easy, in part because no precedents exist for including in the budget financial assets that are held in the name of private individuals. Under such proposals, the federal government would exercise significant control over the use and disposition of PRA balances. At some point, the degree of federal control under a proposal might be so great as to call into question whether the account was truly privately owned.

CBO's Views About the Budgetary Treatment of PRAs

CBO has reached the following conclusions about the budgetary treatment of Social Security reform proposals involving PRAs:

- *If the government requires workers or employers to make payments to PRAs, the federal budget should record those payments as governmental receipts when they are made, regardless of whether the government or private entities administer the accounts.* That treatment would be appropriate because the mandatory payments would be earmarked revenues, as are Social Security payroll taxes, which are treated the same way.[1] If the compulsory payments replaced Social Security payroll taxes, total federal receipts would be unchanged. If the government allowed workers to direct some of their payroll or income taxes to PRAs, the budget should still

1. An earmarked revenue is one that is dedicated to financing a specific program. Earmarking may be a means of directing funds that meets less political resistance than increasing general fund taxes and may ensure an automatic flow of funds to finance a program. For a discussion of the earmarking of regulatory fees and other federal user charges, see Congressional Budget Office, *The Growth of Federal User Charges* (August 1993), pp. 36-38.

record such payments as receipts and indicate no change in total federal receipts.

- *The budget should record mandatory payments to privately owned PRAs as outlays at the same time that deposits are made into the accounts.* The outlays would record the expenditure of the earmarked revenues that the compulsory payments represented. If workers were required to pay both mandatory payments to PRAs and Social Security payroll taxes, simultaneously recording the payments as receipts and outlays would have no net effect on the total budget surplus. If the compulsory payments replaced payroll tax payments, recording the payments as receipts and outlays would not change total federal receipts but would increase total federal outlays and reduce any budget surplus. (If compulsory payments that replaced payroll tax payments were deductible, federal income tax receipts would decline, further reducing any budget surplus.)

- *The budget should also record as outlays any payroll or income taxes that workers direct to privately owned PRAs.* As with compulsory payments to such accounts, the outlays would record the expenditure of the earmarked revenues that the redirected payments represented. Recording the payments as outlays would increase total federal outlays and reduce any budget surplus.

- *The budget should not record voluntary contributions to privately owned PRAs that individuals make with their own funds, regardless of whether the accounts are privately or federally administered, consistent with the exclusion of other voluntary payments to private parties.*

- *The federal budget should exclude PRAs that are privately owned.* Accounts would be privately owned if each individual had the sole property right in his or her PRA, federal control over the use and disposition of the accounts was sufficiently limited, and the amount of federal benefits to which each individual was entitled, under any statute, did not depend expressly on the balance in his or her account. Excluding PRAs from the budget would mean that all of the payments made or received by the administering federal agency or private firms on behalf of account holders would be nonbudgetary. Those transactions would include the deposit of mandatory payments to the PRAs, purchase and sale of financial assets, realization of capital gains and losses, receipt of interest and dividends, and authorized distributions to account holders. Excluding privately owned PRAs from the budget would conform with the budgetary treatment of federal employees' TSP accounts in the Thrift Savings Fund. The ownership of PRAs has not been determined with respect to six bills introduced

in the 105th Congress and the proposal by Martin Feldstein and Andrew Samwick.

- *The federal government could, however, have an ownership interest in PRAs that was sufficient to merit including the accounts in the budget.* For example, if the government had complete control over the use and disposition of PRA balances, the accounts should be included in the budget. In that event, outlays recorded when funds were deposited into the PRAs would represent a transfer of money to a federal fund. The fund would also record all other transactions of the accounts. The budgetary treatment of federal investment in private securities—whether by a PRA fund, the Social Security trust funds, or another program—is an unsettled issue of federal budget concepts. That issue is one of many that should be considered as part of the broad question of whether the federal government should make such investments.

- *It is appropriate to distinguish mandatory payments to PRAs (or payments made by directing payroll or income taxes into such accounts) from other federal payments and to record them separately in the budget.* That practice would clarify the type and size of the PRA program and its effect on total federal receipts and outlays.

AN OVERVIEW OF PROPOSALS FOR PERSONAL RETIREMENT ACCOUNTS

A variety of Social Security reforms involving personal retirement accounts were proposed in the 105th Congress. The appendix summarizes the features of those proposals that are relevant to analyzing their budgetary treatment. To conduct that analysis, CBO grouped the proposals according to the method for making payments to the accounts and who would administer them (see Table 1). Many of the proposals would require workers to make payments to PRAs. Other proposals would allow workers to direct a portion of their required payments for the Old-Age, Survivors, and Disability Insurance (OASDI) payroll tax or the federal income tax to PRAs, allow workers to contribute voluntarily to such accounts, or require the government to deposit funds into PRAs that it established for the benefit of workers.[2] Under many of the proposals, the federal government would invest the funds in the accounts through a new fund that would be administered in the same

2. The tax base for the OASDI payroll tax is $76,200 in 2000 (the base is indexed each year according to the increase in the average wage for all workers). The OASDI tax rate is 6.2 percent of that base for both workers and employers, for a combined rate of 12.4 percent; the combined rate also applies to the self-employed.

TABLE 1. METHODS FOR MAKING PAYMENTS TO AND ADMINISTERING PRAs UNDER SOCIAL SECURITY REFORMS PROPOSED DURING THE 105TH CONGRESS

Method for Making Payments to PRAs	Who Would Administer PRAs: The Federal Government	Private Entities	Not Specified
Require Workers to Make Payments to PRAs	AC Individual Accounts Plan NCRP Proposal[a] H.R. 4256 (Kolbe)[a] S. 321 (Gregg)[b] S. 2313 (Gregg)[a]	AC Personal Security Accounts Plan CED Proposal Kotlikoff and Sachs Proposal H.R. 2768 (Sanford) S. 321 (Gregg)[b]	Altig and Gokhale Proposal
Allow Workers to Direct Their Payroll or Income Tax Payments to PRAs		H.R. 2768 (Sanford) H.R. 2929 (Porter) H.R. 3560 (Smith) H.R. 3683 (Sessions)	Feldstein and Samwick Proposal
Allow Workers to Contribute Voluntarily to PRAs from Their Own Funds	NCRP Proposal[a] Ball Proposal H.R. 1611 (Petri) H.R. 4076 (Petri) H.R. 4256 (Kolbe)[a] S. 1792 (Moynihan)[b] S. 2313 (Gregg)[a]	H.R. 2768 (Sanford) H.R. 2929 (Porter) H.R. 3082 (Smith) H.R. 3560 (Smith) S. 1792 (Moynihan)[b]	
Require the Federal Government to Contribute to PRAs	H.R. 1611 (Petri) H.R. 3456 (Kasich) H.R. 4076 (Petri) S. 2184 (Kerrey) S. 2369 (Roth)	Kotlikoff and Sachs Proposal H.R. 2768 (Sanford) H.R. 2929 (Porter) H.R. 3082 (Smith)	

SOURCE: Congressional Budget Office.

NOTES: Names in parentheses are those of the bill's sponsor.

PRA = personal retirement account; AC = Advisory Council on Social Security; NCRP = National Commission on Retirement Policy; CED = Committee for Economic Development.

a. H.R. 4256 and S. 2313 would implement the NCRP proposal.

b. S. 321 and S. 1792 would give workers the option of having either the federal government or private firms administer PRAs.

way as the Thrift Savings Fund. Under other proposals, private entities would administer PRAs.

Proposals Requiring Workers to Make Payments to PRAs

In a report issued in January 1997, a majority of the members of the Advisory Council on Social Security supported one of two proposals requiring workers to make payments to PRAs.[3] The Research and Policy Committee of the Committee for Economic Development endorsed a similar proposal in February 1997, as did the National Commission on Retirement Policy (sponsored by the Center for Strategic and International Studies) in May 1998.[4] In addition, several economists have proposed replacing some or all of the OASDI payroll taxes paid by some or all workers with equivalent, compulsory payments to PRAs.[5] Moreover, a number of bills requiring individuals to make payments to PRAs were introduced in the 105th Congress.[6]

The proposals requiring workers to make payments to PRAs have the following common features:

- *Workers would be required to pay a fixed percentage of income covered by the OASDI payroll tax to an account established in their name. The required payment would vary from 1 percent to 5 percent, depending on the specific proposal.* Under some proposals, the mandatory payments would replace current OASDI payroll tax payments; under others, the

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3. Advisory Council on Social Security, *Report of the 1994-1996 Advisory Council on Social Security,* vol. 1, *Findings and Recommendations* (January 1997), pp. 28-33.

4. Committee for Economic Development, *Fixing Social Security: A Statement by the Research and Policy Committee of the Committee for Economic Development* (Washington, D.C.: CED, February 20, 1997); and National Commission on Retirement Policy, *The 21st Century Retirement Security Plan* (Washington, D.C.: Center for Strategic and International Studies, May 19, 1998).

5. Laurence J. Kotlikoff and Jeffrey Sachs propose replacing the Old-Age and Survivors Insurance payroll tax, which accounts for about 70 percent of OASDI tax payments, with equivalent payments to PRAs. See Kotlikoff and Sachs, "Privatizing Social Security," *Brookings Review*, vol. 15, no. 3 (1997), pp. 16-23. David Altig and Jagadeesh Gokhale propose requiring workers under age 30 in 2000 to divert 42.6 percent of their OASDI payroll tax payments to PRAs. See Altig and Gokhale, *Social Security Privatization: A Simple Proposal,* Working Paper 9703 (Cleveland: Federal Reserve Bank of Cleveland, April 1997).

6. Personal Retirement Accounts Act of 1997, H.R. 2768, 105th Cong., 1st sess. (1997); 21st Century Retirement Act of 1998, H.R. 4256 and S. 2313, 105th Cong., 2nd sess. (1998); and Strengthening Social Security Act of 1997, S. 321, 105th Cong., 1st sess. (1997). H.R. 4256 and S. 2313 are companion bills that would implement the recommendations of the National Commission on Retirement Policy, of which Congressman Kolbe, Senator Gregg, Congressman Stenholm, and Senator Breaux were the Congressional cochairs. H.R. 2768 would require only individuals entering the workforce in 2000 or later (and their employers) to make payments to PRAs.

compulsory payments would be in addition to such tax payments. Some proposals would allow a worker to supplement the mandatory deposits with voluntary contributions to the account. Some proposals would require all workers to begin making payments immediately; others would require only workers currently below a certain cutoff age or workers who enter the workforce in the future to make payments. Some proposals would require employers to make payments matching the amounts paid by workers.

- *Workers would determine how the funds in their account were invested by choosing from various options that would be circumscribed by federal law.* Proposals differ in the degree of risk that individuals would be allowed to take when investing PRA balances. Those restrictions would affect potential investment earnings.

- *The tax treatment of PRAs would be similar to that of defined contribution retirement plans or individual retirement accounts (IRAs).* All earnings would be tax-free until distribution. Generally, distributions from PRAs would be taxed only if payments to the accounts were tax-deductible. Under some proposals, distributions from the accounts would be taxed like Social Security benefits.

- *Workers would generally be prohibited from liquidating their account before a specified retirement age.* Certain proposals would provide an exception for workers who became disabled or whose account balance became large enough, in combination with their expected Social Security benefit, to protect them from poverty in old age. Some proposals would require individuals to withdraw funds gradually over their lifetime after retirement or purchase an annuity; others would allow lump-sum distributions.

The proposals requiring individuals to make payments to PRAs use different methods to administer the accounts. Under one approach, the Social Security Administration (SSA) would collect compulsory payments and deposit them into separate accounts in a government fund, whose assets would be invested for the benefit of participants.[7] Employers would remit the funds to the SSA through the same procedures used to collect Social Security payroll taxes. That approach is intended to minimize any additional administrative costs for employers and the self-employed.

7. See Advisory Council on Social Security, *Report of the 1994-1996 Advisory Council on Social Security,* vol. 1, pp. 28-29; National Commission on Retirement Policy, *The 21st Century Retirement Security Plan*, pp. 12-14; and H.R. 4256, S. 321, and S. 2313. S. 321 would allow individuals to deposit their mandatory payments into individual retirement accounts administered or issued by a bank or other financial institution, instead of remitting the payments to the SSA.

A new board established within the SSA would manage the fund, implementing workers' investment decisions, reporting account earnings and balances, and making authorized disbursements. Under another approach, private entities would administer PRAs.[8] Employers would establish and maintain payroll deduction programs for their workers, who would designate private financial institutions to manage their account. Employers would deduct compulsory payments to PRAs from each employee's wages and remit the funds to the institution designated by the employee.

Other Proposals Involving PRAs

Several bills introduced in the 105th Congress would give current workers the option to direct some or all of their OASDI payroll tax payments to PRAs.[9] The amount that workers could direct to such accounts would vary from about 2 percent of the Social Security tax base to all of a worker's OASDI payroll tax payments. Some proposals would give workers a period within which they could change their mind about directing payroll tax payments to PRAs; after that period, the decision would be irrevocable. Some proposals would require employers to match the payments of employees who exercised the option or would permit workers to supplement mandatory payments with voluntary contributions. One proposal would require the government to make supplemental minimum benefit payments to any PRA that, when the worker reached age 62, had a balance that was insufficient for purchasing a minimum retirement annuity. Under all of those proposals, private financial institutions would administer the accounts.

Martin Feldstein and Andrew Samwick have proposed giving workers an option to direct some of their federal income tax payments to PRAs. In a recent version of that proposal, individuals would receive a dollar-for-dollar income tax credit for any amounts that they deposited into such accounts, with the credit limited to 2 percent of income subject to the OASDI payroll tax. For workers with income tax liabilities of less than 2 percent of earnings, the credit would be refundable. Workers could withdraw their funds either through periodic payments or as an annuity. But Social Security benefits would be reduced by up to 75 cents for each dollar withdrawn from the accounts, which would be equivalent to allowing retirees to keep at

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8. See Advisory Council on Social Security, *Report of the 1994-1996 Advisory Council on Social Security,* vol. 1, pp. 30-33; Committee for Economic Development, *Fixing Social Security*, pp. 50-51; H.R. 2768 and S. 321; and Kotlikoff and Sachs, "Privatizing Social Security."

9. Personal Retirement Accounts Act of 1997, H.R. 2768, 105th Cong., 1st sess. (1997); Individual Social Security Retirement Accounts Act of 1997, H.R. 2929, 105th Cong., 1st sess. (1997); Social Security Solvency Pilot Program Act of 1997, H.R. 3560, 105th Cong., 1st sess. (1997); and Social Security Solvency Act of 1998, H.R. 3683, 105th Cong., 2nd sess. (1998). Under H.R. 2768, directing a portion of payroll tax payments to PRAs would be optional only for people who entered the workforce before 2000; the payments would be mandatory for workers who entered in later years and their employers.

least 25 percent of their PRA savings on top of the Social Security benefit that they would receive under current law. The authors of that proposal have not specified how the accounts would be administered.[10]

Several other Social Security reform proposals, including four bills introduced in the 105th Congress, would not require individuals to make payments to PRAs but would permit them to do so voluntarily.[11] The contributions would be voluntary because individuals could choose not to make them. Former Social Security Commissioner Robert Ball has recommended that workers be allowed to contribute voluntarily to PRAs administered by the SSA.[12] Under two bills, the accounts would be invested in a federal fund administered the same way as the Thrift Savings Fund. Another bill would have the accounts be privately administered. The fourth would give workers the option of contributing to federally or privately administered PRAs. In addition, one independent proposal and five bills that would require workers to make payments to PRAs or allow them to direct tax payments to such accounts would also allow them to contribute to the accounts voluntarily.[13]

Five bills would require the federal government to contribute to federally administered PRAs established for the benefit of workers or children.[14] Under each bill, the accounts would be invested in a federal fund that would be administered the same way as the Thrift Savings Fund. One bill (H.R. 3082) would require the government to reallocate payroll tax payments to privately administered PRAs. Three bills would require federal payments to privately administered accounts if the amounts accumulated in the PRAs upon retirement were insufficient to provide a

10. Martin Feldstein and Andrew Samwick, *Two Percent Retirement Accounts: Their Potential Effects on Social Security Tax Rates and National Saving*, Working Paper No. 6540 (Cambridge, Mass.: National Bureau of Economic Research, April 1998), available at http://www.nber.org/papers/W6540. For an analysis by CBO of the economic effects of this proposal, see the attachment to the letter from June E. O'Neill, CBO Director, to the Honorable Bill Archer, Chairman of the House Committee on Ways and Means, August 4, 1998. The letter and attachment are available at http://www.cbo.gov/otherdoc.html.

11. Retirement Security Act of 1997, H.R. 1611, 105th Cong., 1st sess. (1997); Social Security Solvency Act of 1997, H.R. 3082, 105th Cong., 1st sess. (1997); Retirement Security Act of 1998, H.R. 4076, 105th Cong., 2nd sess. (1998); and Social Security Solvency Act of 1998, S. 1792, 105th Cong., 2nd sess. (1998).

12. Robert M. Ball, "Social Security Plus" (unpublished paper, July 1998), available from the author at 7217 Park Terrace Drive, Alexandria, VA 22307.

13. The National Commission on Retirement Policy's proposal, H.R. 2768, H.R. 2929, H.R. 3560, H.R. 4256, and S. 2313.

14. H.R. 1611 and H.R. 4076; Personal Retirement Savings Account Act of 1998, H.R. 3456, 105th Cong., 2nd sess. (1998); Social Security KidSave Accounts Act, S. 2184, 105th Cong., 2nd sess. (1998); Personal Retirement Accounts Act of 1998, S. 2369, 105th Cong., 2nd sess. (1998).

minimum annuity.[15] The proposal by Laurence Kotlikoff and Jeffrey Sachs would require federal matching payments to the accounts of low-income workers.

THE TREATMENT OF FEDERALLY ADMINISTERED ACCOUNTS

The *Report of the President's Commission on Budget Concepts* and the budgetary treatment of TSP accounts invested in the Thrift Savings Fund provide clear guidance on the appropriate treatment of federally administered PRAs under most of the Social Security reform proposals made during the 105th Congress. The appropriate treatment of the accounts under two bills (H.R. 1611 and H.R. 4076) has not been determined, however.

Recommendations of the President's Commission on Budget Concepts

President Lyndon Johnson appointed a panel, known as the President's Commission on Budget Concepts, in March 1967 to provide advice on federal budget concepts and presentation. The commission's report, issued in October of that year, stated the purposes of the federal budget, proposed general principles of budgetary classification, and recommended the proper application of those principles to specific federal activities. Although the report has no legal status, it remains the only authoritative statement on federal budgetary accounting.

The commission's recommendations for budgetary treatment were intended to support the purposes of the federal budget. Its report acknowledged that the budget serves many functions but contended that two closely related purposes outweigh the rest. One of those is to determine the "allocation of resources among conflicting claims." The second is to determine total expenditures and receipts that establish "overall fiscal policy." In addition, the commission noted that "the budget totals are commonly used to measure the relative size of government in the national economy."[16]

The commission's most important recommendation was for a unified budget—a single, comprehensive framework that would summarize the federal government's fiscal transactions and replace the three competing frameworks then in use. "To work well," the commission's report stated, "the governmental budget process should encompass the full scope of programs and transactions that are within the Federal sector and not subject to the economic disciplines of the marketplace." The

15. H.R. 2768, H.R. 2929, H.R. 3082.

16. President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (October 1967), pp. 2, 12, 21, and 65.

commission contended that "the budget should, as a general rule, be comprehensive of the full range of Federal activities. Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion."[17]

The commission's report observed, however, that its recommendation "poses practical questions" about the precise transactions the budget should include, because "the boundaries of the Federal establishment are sometimes difficult to draw." In deciding which transactions to include, the commission asked the following questions: "Who owns the agency? Who supplies its capital? Who selects its managers? Do the Congress and the President have control over the agency's program and budget, or are the agency's policies the responsibility of the Congress and the President only in some broad ultimate sense?"[18]

The report recommended excluding certain transactions from the unified budget. Those transactions include the receipts and expenditures of the Federal Reserve System, which is clearly a federal activity and which the commission contended should be excluded in part to protect the independence of the monetary authorities; the local receipts and expenditures of the District of Columbia, even though it is a federal enclave; and the receipts and expenditures of government-sponsored enterprises when they are "completely privately owned."[19]

Another of the commission's major recommendations concerned the offsetting of receipts against expenditures in presenting the government's fiscal totals:

> For purposes of summary budget totals, receipts from activities that are essentially governmental in character, involving regulation or compulsion, should be reported as receipts. But receipts associated with activities that are operated as business-type enterprises, or which are market-oriented in character, should be included as offsets to the expenditures to which they relate.[20]

17. Ibid., pp. 24-25.

18. Ibid.

19. Ibid., p. 29. In 1967, the federal government had an ownership interest in portions of the Farm Credit System, a government-sponsored enterprise.

20. Ibid., p. 65.

Budget analysts refer to the first type of receipts as governmental receipts and the second as offsetting collections.[21] According to the report, governmental receipts include income, excise, franchise, and employment taxes; customs receipts; social insurance premiums; patent and copyright fees; and immigration, passport, and consular fees. Offsetting collections include payments collected by government enterprises; sales of products; interest, dividends, rents, and royalties; repayments of loans and advances; and fees and charges for services and benefits of a voluntary character.

The commission believed that its recommended budgetary treatment of receipts would enable the budget to serve "as a rough measure of the proportion of national production which is allocated and distributed through collective choice rather than through private choice and the market mechanism."[22] The following passage is the commission's most detailed argument in favor of its recommended treatment of receipts:

> A principal difference between government activity and private enterprise is that the government supplies services free of charge, covering the cost of governmental services, for the most part, by exercise of its sovereign powers to levy taxes, to borrow, and to create new money. The budget totals of expenditures or revenues tend to be interpreted, therefore, as a rough measure of the volume of economic activity allocated through collective political choice, rather than through the standard that the use of services requires payment of a price. The budget totals for this essentially governmental sector should, therefore, insofar as possible, reflect the size of this nonmarket, nonpricing allocative mechanism which then can be compared with the size of the market sector where consumers pay a price instead of a tax.[23]

Thus, the commission believed that for the budget to measure the value of economic activity allocated through collective political choice, receipts collected through the government's sovereign powers should not be offset against expenditures. For the same reason, if the budget is to measure total government activity, receipts that the government collects by selling goods or services need to offset related expenditures.

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21. For discussions of each type, see Thomas J. Cuny, "The Evolution of Accounting for Receipts in the Federal Budget," *Public Budgeting and Finance*, vol. 9, no. 4 (1989), pp. 21-39, and "Offsetting Collections in the Federal Budget," *Public Budgeting and Finance*, vol. 8, no. 3 (1988), pp. 96-109.

22. President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts*, p. 66.

23. Ibid., pp. 66-67.

The Budgetary Treatment of TSP Accounts in the Thrift Savings Fund

Each of the bills introduced during the 105th Congress that would require the federal government to administer PRAs would direct the accounts to be invested in a new fund. Several of the bills would require the SSA to administer such accounts in the same way that the Federal Retirement Thrift Investment Board, a federal agency, administers the Thrift Savings Fund. That fund comprises the accounts of federal employees who participate in the Thrift Savings Plan. Under the Federal Employees' Retirement System Act of 1986, all sums contributed to the Thrift Savings Fund by a federal worker, or by a federal agency for the worker's benefit, and all net earnings of the fund from investment of such sums are held in trust for that employee (5 U.S.C. 8437(g)).

The federal budget does not include the transactions of the Thrift Savings Fund. That treatment reflects the ownership of the accounts in the fund. An owner of property has the right to enjoy, use, or dispose of a thing of value, which may be real or personal, tangible or intangible. Ownership may be full or partial. Full ownership exists when a person holds all of the rights in a thing that is or may be subject to ownership. Ownership is shared when the property rights in an asset are legally divided. Thus, a homeowner may grant an easement to allow a neighbor to build a driveway that provides access to the neighbor's property. Similarly, a landowner may lease the rights to drill for oil on his or her land.

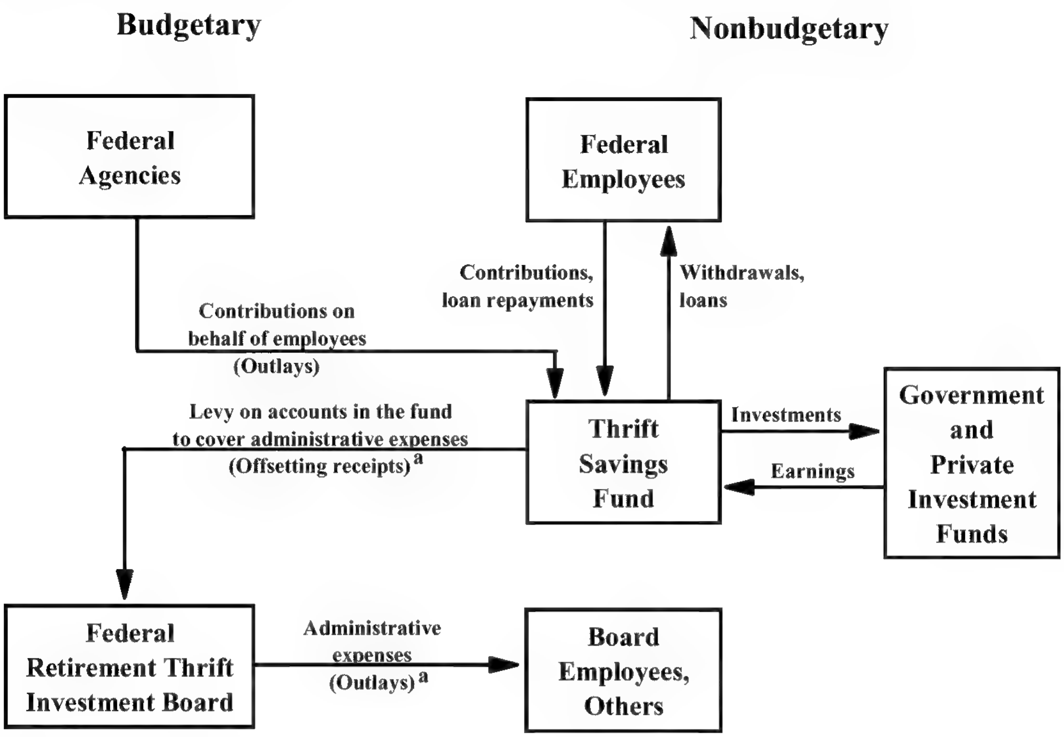
Although the government recognizes and protects ownership rights, it may restrict a person's rights in property. Such restrictions typically limit the extent of, but do not destroy, private ownership of the asset. However, some federal restrictions of private property rights may be so great as to constitute "takings" under the Fifth Amendment to the Constitution, which states "nor shall private property be taken for public use, without just compensation." Whether a particular federal action constitutes a taking depends on the facts of the case. A CBO study of takings of real property notes that "constitutional takings jurisprudence is generally tolerant of many actions by government that further legitimate public policy goals."[24]

In CBO's view, the Federal Employees' Retirement System Act of 1986 gives each worker a nonforfeitable right to the money held in trust for him or her in the Thrift Savings Fund.[25] Each individual has the sole property right in his or her TSP account: the individual receives the economic benefit of the account—no more and no less—although distributions from the account are subject to income taxation. In addition, although the government limits how and when each individual can realize

24. Congressional Budget Office, *Regulatory Takings and Proposals for Change* (December 1998), p. ix.

25. Employees must meet a minimum tenure requirement before the mandatory payments to their accounts made by their employing agencies are fully vested.

FIGURE 1. THE BUDGETARY TREATMENT OF THE THRIFT SAVINGS FUND



SOURCE: Congressional Budget Office.

a. Administrative expenses and offsetting receipts net to zero.

the economic benefit of his or her account and how the account may be invested, those regulatory restrictions do not constitute a federal right to control the ultimate disposition of the funds. Therefore, such accounts are privately owned, and the government's role in administering them is merely fiduciary. For those reasons, OMB classifies the Thrift Savings Fund as a deposit fund.[26]

Consistent with that classification, all of the transactions of the Thrift Savings Fund itself are nonbudgetary (see Figure 1). The budget records as outlays the payments that federal agencies make to their employees' TSP accounts. (Agencies have to pay an amount equal to 1 percent of the salary of each employee who participates in the Federal Employees Retirement System.) The budget does not record

26. "Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States)." See *Budget of the United States Government, Fiscal Year 2001: Analytical Perspectives* (February 2000), p. 377; see p. 348 for a statement of OMB's reasons for classifying the Thrift Savings Fund as a deposit fund.

the voluntary contributions that employees make to their accounts in the Thrift Savings Fund; those payments are considered transactions between private parties. That treatment conforms with the nonbudgetary status of payments of state and local income taxes withheld from federal employees' salaries. In addition, the budget records as outlays the administrative expenses of the Federal Retirement Thrift Investment Board; it records as offsetting receipts the funds raised by a levy on each TSP account to cover those administrative expenses.

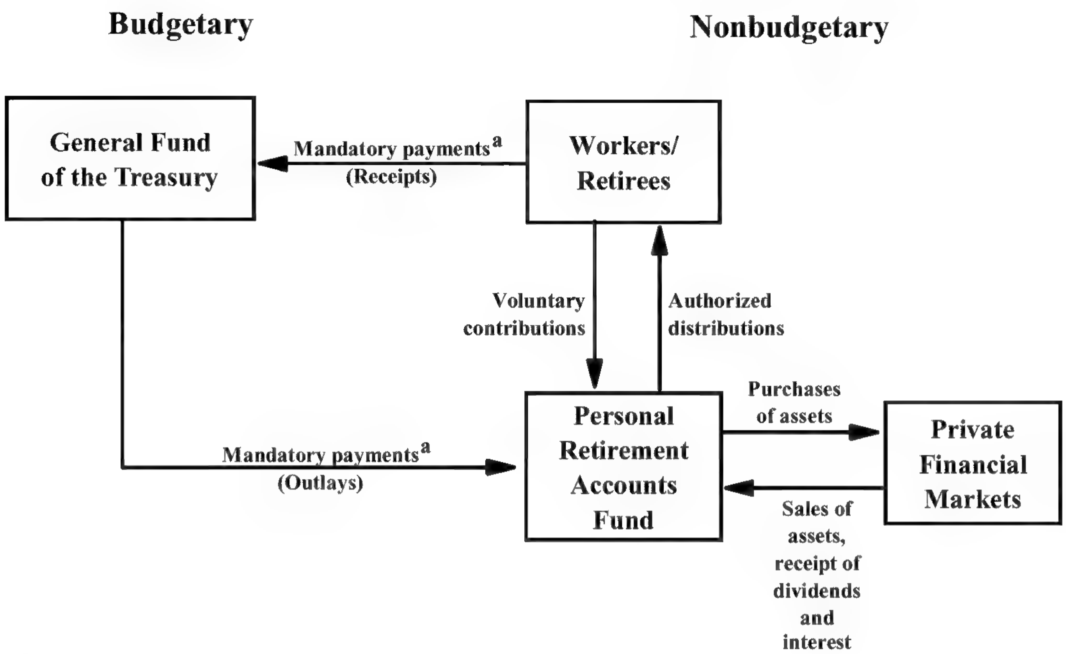
Implications for the Treatment of Federally Administered PRAs

The recommendations of the *Report of the President's Commission on Budget Concepts* provide clear guidance on several aspects of the budgetary treatment of federally administered PRAs proposed in the 105th Congress. First, all mandatory payments to those accounts would be collected through an exercise of the federal government's sovereign power. Since the payments would be dedicated to financing a particular program, they would be earmarked revenues. Therefore, the payments should be recorded in the budget as governmental receipts, as are other earmarked revenues such as Social Security payroll taxes. Second, even if workers had the option of directing some of their payroll or income tax payments to federally administered PRAs, the payments should still be recorded as governmental receipts, since the choice would not change an individual's total federal tax liability and the payments would be earmarked revenues. Third, consistent with the budgetary treatment of other appropriated funds, federal payments to PRAs should be recorded as budget authority when the money is appropriated and as outlays when it is deposited into the accounts. Appropriations for the administrative expenses of the SSA or any other federal agency that administered the accounts should also be recorded as budget authority and outlays.

Nonetheless, the commission's report offers no specific guidance about whether federally administered PRAs should be included in the budget. That issue encompasses two questions. First, would the accounts be privately or federally owned? Second, given the ownership of the accounts, how should the budget record their transactions? Those transactions would include deposits by the government, workers, or employers; purchase and sale of financial assets; realization of capital gains and losses; receipt of interest and dividends; and authorized distributions to account holders. Because federally administered PRAs under most Social Security reform proposals made during the 105th Congress would closely resemble TSP accounts invested in the Thrift Savings Fund, the budgetary treatment of TSP accounts provides guidance for answering those questions.

If federal law required the government to administer PRAs in the same manner as TSP accounts and if individuals had the same property right in PRAs as federal employees have in TSP accounts, CBO would conclude that PRAs were privately

FIGURE 2. THE BUDGETARY TREATMENT OF PAYMENTS TO PRIVATELY OWNED PERSONAL RETIREMENT ACCOUNTS



SOURCE: Congressional Budget Office.

a. Includes federal tax payments that workers direct to personal retirement accounts.

owned and that the government, in administering the accounts, was acting as a fiduciary. A federal fund that invests the balances of privately owned PRAs should be classified as a deposit fund, and the budget should exclude the fund's transactions. Such treatment would conform with the budgetary treatment of the Thrift Savings Fund.

In addition, to the extent that payments to federally administered, privately owned PRAs represent earmarked revenues, the federal budget should record outlays equal to the payments at the time they are made. Such outlays would record the transfer of federal budgetary resources into private hands. Any payments made by an entity included in the budget to a nonbudgetary entity should be recorded as outlays. However, the budget should exclude any voluntary contributions to federally administered PRAs, since such payments would be private transactions.

Under the appropriate budgetary treatment of PRAs that are federally administered and privately owned, mandatory payments to the accounts, including federal tax payments that workers voluntary direct to them, are recorded as both receipts and outlays (see Figure 2). The fund that administers the PRAs is nonbudgetary, as are workers' voluntary contributions to their accounts.

The effect on the budget totals of that budgetary treatment of federally administered, privately owned PRAs would depend on the source of the payments to the accounts and on whether the payments replaced or were in addition to Social Security payroll taxes. If federal law required workers and employers to make payments to PRAs and pay current Social Security payroll taxes, total budget receipts and outlays would each increase by the amount of the new compulsory payments; because the increases in receipts and outlays would offset each other, there would be there would be no effect on the total budget surplus.[27] If, instead, the new mandatory payments replaced Social Security payroll taxes, or if workers had the option of directing some of their payroll or income tax payments into such PRAs, total federal receipts would be unchanged, total federal outlays would increase, and any budget surplus would decrease by the amount of tax payments so diverted. If the Congress simply appropriated funds for deposit into such PRAs, the payments would increase total federal outlays and reduce any total budget surplus.

H.R. 4256 and S. 2313, which would implement the proposals of the National Commission on Retirement Policy, include a provision directing OMB and CBO to exclude from the budget all receipts and disbursements of a new PRA fund that the SSA would manage. In CBO's judgment, the PRAs created by the two bills would be privately owned, and the provision therefore conforms with the treatment of the accounts that CBO believes is appropriate.

Proposals Under Which the Ownership of Federally Administered PRAs Has Not Been Determined

CBO has not determined the appropriate budgetary treatment of federally administered PRAs under two bills introduced during the 105th Congress (H.R. 1611 and H.R. 4076). Under those bills, the government would have a property interest in workers' accounts. To determine whether that interest would generally be sufficient to make the PRAs federally owned, CBO would have to assess the distribution of federal and private property interests in the accounts (see Box 1).

If federally administered PRAs are deemed to be federally owned, the budget should include them. Under that treatment, the budget would record receipts equal to any mandatory payments the private sector made to the PRAs. The general fund of the Treasury would transfer those amounts to a federal fund that would record the transactions of the accounts. Any federal payments to the accounts would be recorded as transfers from the general fund to the PRA fund. Voluntary contributions to the accounts would also be credited to the fund.

27. The total budget surplus equals the sum of any surplus of the unified budget and any surplus of the Social Security trust funds, which by law are excluded from the unified budget.

BOX 1. PROPOSALS UNDER WHICH THE OWNERSHIP OF PRAs HAS NOT BEEN DETERMINED

The Congressional Budget Office (CBO) has not determined the ownership of personal retirement accounts (PRAs) under six bills introduced in the 105th Congress and the proposal made by Martin Feldstein and Andrew Samwick. Under two of the bills, the federal government would administer the accounts. Under the other bills, the PRAs would be privately administered. The Feldstein/Samwick proposal does not specify the administration of the accounts. For each proposal, the ownership of PRAs depends on the relative size of federal and private property interests in the accounts.

Under two bills introduced by Congressman Petri (H.R. 1611 and 4076), the balance of each individual's federally administered PRA would be used first to pay the Social Security benefits to which the individual was entitled (or survivor benefits, if account holders died before becoming eligible to retire). If the balance was more than necessary to pay Social Security benefits for the rest of the individual's life, the individual could receive the excess in the form of an annuity. Clearly, the government would have a property interest in such accounts. The relative size of the federal and private property interests in each person's PRA would depend on the individual's age and earnings history, the amount of voluntary contributions to the account, and the returns earned by investing the balance. CBO would have to assess the distribution of the federal and private property interests in workers' accounts to determine whether the government's property interest would generally be sufficient to make the PRAs federally owned.

Bills introduced by Congressman Porter (H.R. 2929), Congressman Sanford (H.R. 2768), and Congressman Nick Smith (H.R. 3082 and H.R. 3560) and the Feldstein/Samwick proposal also raise the issue of whether PRAs would be privately or federally owned. Under those proposals all distributions from an account would be paid solely to the individual in whose name it was established or to his or her designated heirs. Federal control over the use and disposition of PRAs would be limited. Those features seem to imply that each individual would have the sole ownership interest in his or her PRA.

That conclusion may not be warranted, however. The proposals, albeit in different ways, make the amount of federal benefits to which an individual would be entitled depend expressly on the value of his or her PRA at retirement. For example, under the bills introduced by Congressmen Porter and Sanford, if at age 62 an individual did not have an account balance that was sufficient to purchase a minimum annuity, the government would be required to make a payment to bring that balance up to the level required to purchase such an annuity. Under the two bills introduced by Congressman Smith, a sufficiently low balance would trigger supplemental federal benefits. In contrast, under the Feldstein/ Samwick proposal, each individual's Social Security benefits would be reduced by up to 75 cents for each dollar withdrawn from his or her account. When the program was fully implemented, the government would receive up to three-quarters of the economic benefit of workers' PRAs.

In general, if the benefits to which individuals are entitled under federal law depend largely on the balance in their PRA, the government's property interest in the accounts may be sufficient to make them federally owned. To resolve the issue with respect to a specific proposal, CBO would have to assess the distribution of the federal and private property interests in workers' PRAs. A sufficiently high level of federal control or implicit or explicit federal taxation of the accounts might also imply that they were federally owned.

The budgetary treatment of federal investment in private securities—whether by a PRA fund, the Social Security trust funds, or another government program—is an unsettled issue of federal budget concepts. In CBO's view, that issue is one of many that should be considered as part of the broad question of whether the federal government should make such investments.

CBO has identified two approaches to the budgetary treatment of a PRA fund or other federal fund that invested in private securities. Under one approach, the fund would be on-budget and would be accounted for on a cash basis (see Figure 3). The fund's purchases of private securities would be scored as outlays. A decision would have to be made about the treatment of payments that the fund received from the public.[28] Recording all payments from the public as offsetting collections would be consistent with the general budgetary accounting rule for federal purchases and sales of assets and with the application of that rule to federal investment in private securities stated in OMB Circular A-11.[29]

Under a second approach, most of the transactions that a PRA fund that invested in private securities had with the public would be nonbudgetary (see Figure 3). The fund would make periodic payments to a program account or general fund receipt account. The payments would recognize profits earned by the fund and would increase the total budget surplus as they were made. Decisions would have to be made about the timing of those payments and whether they would be recorded in the budget as offsetting collections or receipts.[30]

The Mandate Statement Required by the Unfunded Mandates Reform Act

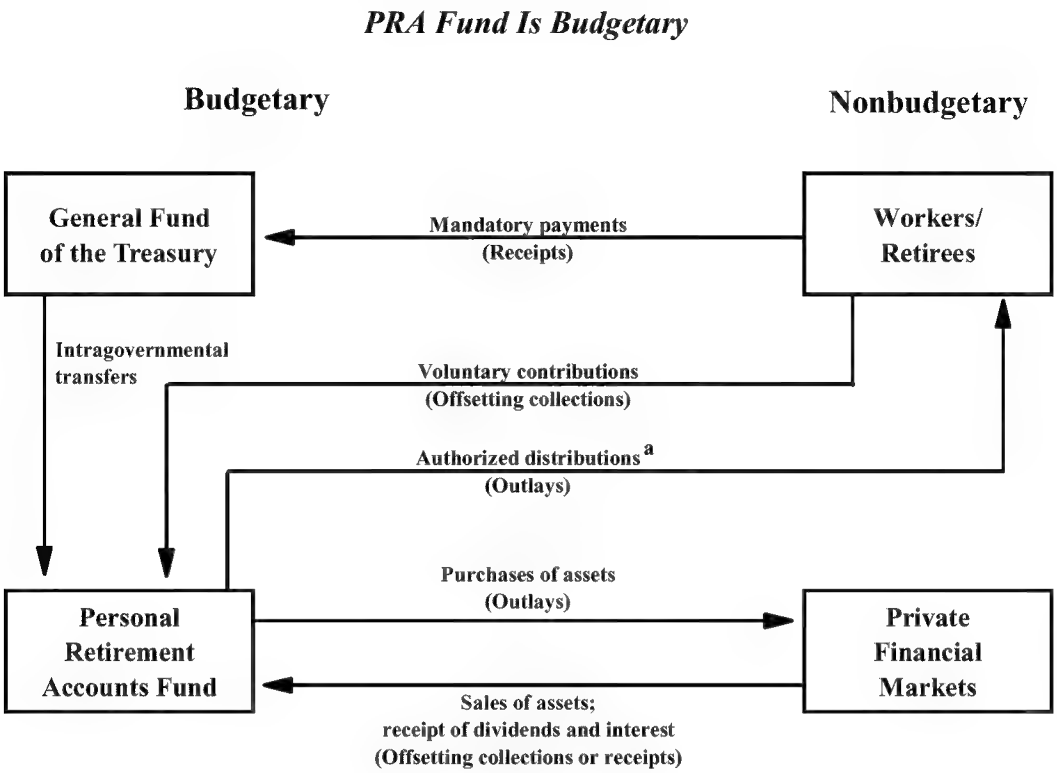
If a requirement that individuals make payments to federally administered, privately owned PRAs did not relate to the OASDI provisions of the Social Security Act, it would be considered a mandate within the definition of the Unfunded Mandates

28. Payments from the public to a PRA fund would include the proceeds of sales of securities and the receipt of interest and dividends. The budget could record all of the payments as offsetting collections or some of the payments as offsetting collections and some as receipts. That choice would determine how the fund affected the size of the federal government, as measured by the budget.

29. The 1998 version of Circular A-11 states that "Budget authority must be available and outlays will be recorded when the Government invests in non-U.S. securities (equity or debt securities) in an amount equal to the purchase price. Interest is recorded as offsetting collections or receipts on a cash basis. When a security is sold, the budget records offsetting collections or receipts equal to the sales proceeds." Office of Management and Budget, *Preparation and Submission of Budget Estimates*, Circular A-11 (July 1998), sec. 14.3(a), p. 46.

30. The President's budget for 2001 assumes that the government would begin investing in private securities in 2011 and that the transactions would be nonbudgetary. The budget, however, neither provides the conceptual basis for that treatment nor discusses how the budget would record the profits from such investment. See *Budget of the United States Government, Fiscal Year 2001*, Table S-14, "Federal Government Financing and Debt," pp. 420-421.

FIGURE 3. THE BUDGETARY TREATMENT OF FEDERALLY OWNED PERSONAL RETIREMENT ACCOUNTS



SOURCE: Congressional Budget Office.

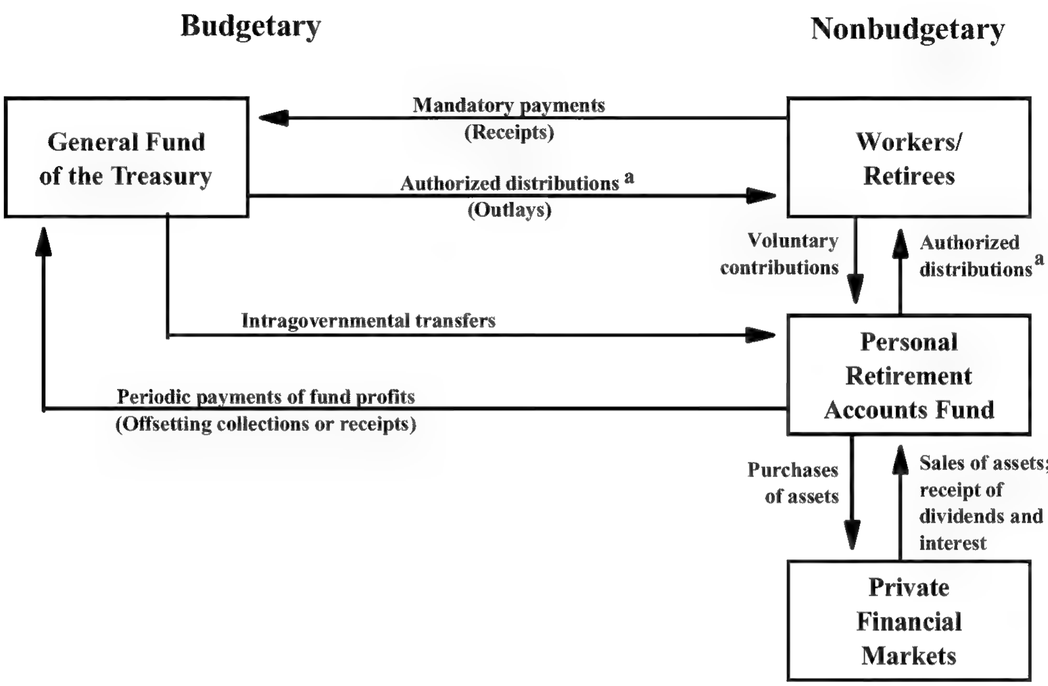
(Continued)

Reform Act of 1995 (UMRA).[31] CBO would then prepare a mandate statement on any bill reported to the House or Senate requiring workers to make payments to such accounts and would estimate whether the direct costs of the mandate exceeded the threshold level for private-sector mandates set by UMRA, as they almost surely

31. UMRA defines a federal mandate as any provision in legislation, statute, or regulation that imposes an enforceable duty on state, local, or tribal governments or the private sector or that reduces or eliminates the amount of funding authorized to cover the costs of existing mandates. Duties that arise as a condition of federal assistance or participation in a voluntary federal program are not mandates under UMRA. The act requires CBO to prepare statements for authorizing committees about whether reported bills contain mandates as defined by UMRA. The act excludes from consideration any provision in a bill that relates to the OASDI program under title II of the Social Security Act, including OASDI taxes in the Internal Revenue Code. For such provisions, CBO does not have to determine whether any requirements constitute federal mandates. For information about how UMRA worked in 1999 and CBO's activities under the act in that year, see Congressional Budget Office, *An Assessment of the Unfunded Mandates Reform Act in 1999*, CBO Paper (March 2000).

FIGURE 3. CONTINUED

PRA Fund Is Nonbudgetary



a. Under H.R. 1611 and 4076, authorized distributions would include payment of Social Security benefits owed to account holders at retirement (or survivor benefits, if account holders died before becoming eligible to retire).

would.[32] The direct costs of the mandate would equal the estimated mandatory payments to PRAs minus the estimated reduction in voluntary private savings resulting from the mandate.

THE TREATMENT OF PRIVATELY ADMINISTERED ACCOUNTS

S. 1792, the Social Security Solvency Act of 1998, a bill that Senator Moynihan introduced in the 105th Congress, would allow individuals to make voluntary contributions to privately administered PRAs. Each individual would own his or her

32. The threshold for private-sector mandates is $100 million a year (in 1999 dollars), indexed annually for inflation.

account. Unlike most of the other Social Security reform proposals, the bill would authorize only voluntary contributions to PRAs. In those two respects, the accounts would be similar to IRAs or defined contribution pension plans under current law. Neither the President's annual budget submission nor CBO's baseline records contributions to IRAs or defined contribution pensions.[33] Because the contributions to PRAs under S. 1792 would be voluntary and the accounts would be privately owned, the degree of federal control over the contributions and the accounts would be sufficiently limited to justify excluding them from the budget.

The budgetary treatment issues raised by other Social Security reform proposals that would involve privately administered PRAs are more difficult to resolve. Those issues include the treatment of compulsory payments to such accounts, the treatment of payments resulting from workers' directing some of their federal tax liabilities into the accounts, and the treatment of the accounts themselves when payments to them are mandatory or result from the direction of federal tax liabilities. The *Report of the President's Commission on Budget Concepts* does not provide clear guidance on the budgetary treatment of payments mandated by federal law that the government does not collect. Nor do precedents exist for the budget's recording mandatory payments from individuals to private entities or including financial assets that are held in the name of an individual. Therefore, CBO must review the relevant features of each such Social Security reform proposal and make a judgment about the appropriate budgetary treatment of both the mandatory payments to PRAs and the accounts themselves.

How CBO Analyzes Bills That Mandate an Activity

Social Security reform proposals that require workers to make payments to privately administered PRAs or allow them to direct federal tax payments to such accounts exemplify a general class of legislation requiring the private sector or another level of government to perform an activity. Such legislation raises two questions of budgetary treatment. First, would federal control over the performance and financing of the activity be sufficient to merit including in the budget the mandatory payments associated with the activity? Second, would the federal government have an ownership interest in any assets created by the activity, and if so, would the government's interest be sufficient to merit including the assets in the budget? To answer those questions, CBO examined several issues that have evolved as the Congress has considered new proposals with unique features.

33. Estimates of federal receipts reflect, however, the reduction in individual income tax receipts resulting from the tax treatment of those contributions.

Those issues differ for two types of bills requiring the private sector or another level of government to perform an activity. The first type of bill would charter a new corporation or other legally separate entity to perform the activity, encourage another level of government to charter an entity, or require the private sector to do so. Many proposals might give a new corporation some of the legal attributes or appearance of private ownership, such as a degree or semblance of risk bearing by private investors. Generally, the entity that performs a mandated activity holds any assets, such as checking-account balances, that are created as a result of the activity. The second type of bill would give individuals the responsibility for performing and financing the activity. Employers might share some of that responsibility as well. Assets created by the mandated activity might be held in the name of private individuals, as under some bills that would require individuals to make payments to PRAs. Even though CBO asks somewhat different questions when analyzing the two types of bills, in both cases the agency focuses on the degree of federal control over the performance and financing of a mandated activity and the degree of federal ownership interest in any assets created by the activity.

When analyzing a bill of the first type, CBO asks the same questions that the President's Commission on Budget Concepts raised about federal agencies: "Who owns the agency? Who supplies its capital? Who selects its managers? Do the Congress and the President have control over the agency's program and budget, or are the agency's policies the responsibility of the Congress and the President only in some broad ultimate sense?"[34] In addition, CBO considers whether the entity would finance any federally mandated activities by collecting compulsory assessments levied through an exercise of the federal government's sovereign power. The answers to those questions inform CBO's judgments about the appropriate budgetary treatment of both the mandatory payments associated with the activity and the assets of the entity that would perform it.

When analyzing a bill of the second type, CBO asks whether the bill would require individuals to make specific payments that are equivalent to earmarked revenues the government might collect and disburse itself. In addition, CBO asks whether, in the absence of federal requirements, individuals or private firms would perform the same activity on their own initiative. The answers to those questions inform CBO's judgment about the budgetary treatment of those payments. CBO also asks whether the government would have a property right in any assets created by the activity, how significant any such right would be, how much control the government would exercise over the use and disposition of the assets, and whether the amount of federal benefits to which individuals were entitled, under any statute, would be expressly linked to the value of the assets. The answers to those questions

34. President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts*, p. 25.

inform CBO's judgment about the degree of the government's ownership interest in the assets.

Legislative Proposals Considered by the Congress in the 1990s

During the past decade, the Congress considered a number of bills mandating that the private sector perform an activity. Some of those bills proposed using legally separate entities to perform activities in the areas of health care, telecommunications, agriculture, and energy. Other bills proposed requiring individuals to obtain health insurance coverage.

Proposals Establishing New Entities to Perform and Finance Mandated Activities. Since 1990, three bills that require legally separate entities to perform and finance activities have been enacted into law: the Coal Industry Retiree Health Benefit Act of 1992, which was enacted as part of the Energy Policy Act of 1992 (Public Law 102-486); the Propane Education and Research Act of 1996 (Public Law 104-284); and the Telecommunications Act of 1996 (Public Law 106-104). The entities created by two of those acts and the associated transactions were ultimately included in the federal budget. The Congress also considered similar proposals that were not enacted into law.

The Coal Industry Retiree Health Benefit Act of 1992 established a new federal entitlement to health benefits for certain retired members of the United Mine Workers of America and their dependents. The act created two funds to administer the entitlement and required the union and the coal industry to appoint the trustees of the funds. It also required the retirees' former employers to make mandatory payments to the funds to finance benefits. The payments are set each year at a flat dollar amount per person by the Secretary of Health and Human Services (HHS) on the basis of a statutory formula. The funds are held in private financial institutions rather than in the U.S. Treasury. Nevertheless, the existence of a federal entitlement to health benefits, the mandatory payments to finance those benefits, and the administrative role of the Secretary of HHS give the government essentially complete control over the program. Those factors justify considering the two funds to be federally owned and including them in the budget.[35]

The Propane Education and Research Act of 1996 authorized organizations in the propane industry to conduct a referendum among producers and retail marketers to determine whether to establish a Propane Education and Research Council. The

35. For a summary of the program and the rationale for its budgetary treatment, see Nonna A. Noto, *Budget Treatment of the UMWA Retiree Health Benefit Program*, CRS Report for Congress 93-979 E (Congressional Research Service, November 10, 1993).

act also provided that if industry support was sufficient to establish the council, it would be funded through an assessment of up to 0.1 cent per gallon of propane sold in the retail market. CBO's cost estimate of the version of the bill reported to the House assumed that the industry would vote to establish the council and that the assessment would raise about $9 million annually.[36] The estimate stated that the federal budget should record the cash flows related to the council as governmental receipts and direct spending because the assessments collected by the council would stem from an exercise of the federal government's sovereign power. The government's control over the council is equivalent to federal ownership.

The Telecommunications Act of 1996 codified a national policy of universal service and made explicit a formerly implicit industry/government commitment to expand the availability of telephone service. The law directed the Federal Communications Commission (FCC), in coordination with the states, to compel telecommunications carriers—private firms that mainly sell communications links devoid of content—to provide universal service. Universal service is defined as an evolving level of telecommunications service that includes at least those services available to a majority of residential customers.[37]

To achieve universal service, the FCC and state regulatory agencies direct carriers to pay compulsory assessments to the Universal Service Administrative Company and comparable intrastate entities.[38] Those entities use the funds to pay explicit subsidies to carriers designated as being responsible for providing universal service to customers in areas that are otherwise unprofitable to serve. The FCC and state regulatory agencies determine the amounts of the compulsory assessments and the explicit subsidies. The federal government exercises much control over the system of payments: the 1996 act makes the FCC ultimately responsible for achieving universal service and authorizes the agency to assess intrastate revenues and override state universal-service mechanisms if they are not consistent, or conflict, with federal mechanisms. The high degree of federal control justifies both considering the entities that collect the compulsory assessments and make the explicit sub-

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36. Letter from June E. O'Neill, CBO Director, to the Honorable Thomas J. Bliley, Jr., Chairman of the House Committee on Commerce, May 3, 1996.

37. Federal Communications Commission, *In the Matter of Federal-State Joint Board on Universal Service, Report to Congress*, CC Docket No. 96-45, FCC 98-67 (adopted April 10, 1998), reviews the definitions and mechanisms included in the Telecommunications Act of 1996.

38. The nation's local telephone companies formed the Universal Service Administrative Company in 1983 in response to a mandate by the FCC. The company, which is nominally a nonprofit corporation, administers a system of uniform prices that long-distance carriers pay for access to the local phone network. State regulatory agencies have required intrastate carriers to establish comparable entities in each state.

sidy payments required by the 1996 act to be federally owned and including their transactions in the federal budget.[39]

OMB agreed with CBO that the federal budget should include the activities required by the Coal Industry Retiree Health Benefit Act of 1992 and the Telecommunications Act of 1996. Accordingly, the President's budget submissions and CBO's baseline include both the Coal Industry Retiree Health Benefit Program and the Universal Service Fund. The two programs added about $4.2 billion to governmental receipts and about $3.7 billion to outlays in fiscal year 1999, for a net increase in the budget surplus of about $0.5 billion.[40] In addition, estimates of the explicit subsidies associated with universal service have been included in the historical data section of the federal budget, beginning with fiscal year 1984.[41] Moreover, such estimates appear in the *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*. (Problems with collecting data from the funds that administer the Coal Industry Retiree Health Benefit Program have thus far prevented its inclusion in that publication.)

OMB disagreed with CBO about the appropriate budgetary treatment of the research council authorized by the Propane Education and Research Act of 1996 and established by the industry, so the President's budget has not included the council's receipts and disbursements. OMB's view follows the budgetary precedent of excluding the transactions of similar organizations established in the past to promote agricultural commodities, such as the Cattlemen's Beef Promotion and Research Board and the National Watermelon Promotion Board. Consistent with the President's budget, CBO's baseline does not include the transactions of the council.

The Congress has considered several other bills in recent years that would require legally separate entities to perform and finance activities mandated by federal law. The Health Security Act proposed by the Clinton Administration in 1993 would have created a universal entitlement to health insurance for a broad range of services, required individuals and employers to pay health insurance premiums, and established purchasing alliances to collect the premiums and buy coverage from health plans. In addition, the National Oilheat Research Alliance Act of 1998, a bill

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39. See the cost estimate on the Telecommunications Competition and Deregulation Act of 1995, an enclosure to a letter from June E. O'Neill, CBO Director, to the Honorable Larry Pressler, Chairman of the Senate Committee on Commerce, Science, and Transportation, May 5, 1995.

40. In fiscal year 1999, the budget recorded governmental receipts of $407 million and outlays of $401 million for the Coal Industry Retiree Health Benefit Program. Comparable figures for the Universal Service Fund were $3.8 billion and $3.3 billion, respectively. The difference in the receipt and outlay figures for the Universal Service Fund stem from the difference in the timing of payments collected and disbursed by the fund; over the long run, receipts and outlays will be equal.

41. See *Budget of the United States Government, Fiscal Year 2001: Historical Tables*, p. 41.

passed by the House in the 105th Congress as H.R. 3610, would have allowed retail marketers and wholesale distributors of heating oil to establish, by referendum, an industry research organization that would be funded with a compulsory assessment imposed by the government. In both cases, CBO concluded that the degree of federal control of the performance and financing of the activities of the new entities would be sufficient to merit including them in the budget.[42]

The 103rd Congress considered a bill, the Managed Competition Act of 1993, to create a federal Health Care Standards Commission. Health plans that met the commission's standards would be registered as accountable health plans (AHPs). Each state would set up one or more health plan purchasing cooperatives to coordinate all offerings by AHPs to individuals and small employers. Although the bill did not require individuals to enroll in AHPs, it made several changes in the tax treatment of health insurance spending to encourage them to do so. Firms would not be required to become AHPs, but if they did so, they could choose how to comply with federal regulations. The cooperatives would have no authority to assess compulsory premiums on individuals or employers. Because the bill would not create a federal entitlement, authorize AHPs or cooperatives to collect compulsory assessments, or create any federal ownership interest in those entities, CBO concluded that the degree of federal control over the performance and financing of their activities would be insufficient to justify including them in the budget.[43]

Proposals Requiring Individuals to Perform and Finance Mandated Activities. Several of the health care reform bills considered by the 103rd Congress proposed that individuals be required to purchase health insurance coverage. Individuals and families could satisfy the requirements by enrolling in a qualified private health plan that met minimum federal requirements or by participating in a public program such as Medicare or Medicaid. Those who failed to comply would be taxed or otherwise penalized. Competition among health plans would determine the premiums they charged, but the government would limit the plans' ability to restrict the services they covered or to vary their premiums on the basis of an individual's health status. (Plans now limit their risk exposure by restricting coverage and match their revenues and costs by varying their premiums on the basis of risk.)

An analysis by CBO in 1994 presented arguments for and against including mandatory purchases of health insurance in the federal budget.[44] On the one hand,

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42. Congressional Budget Office, *An Analysis of the Administration's Health Proposal* (February 1994), and cost estimate of H.R. 3610, National Oilheat Research Alliance Act of 1998 (October 2, 1998).

43. Congressional Budget Office, *An Analysis of the Managed Competition Act* (April 1994).

44. Congressional Budget Office, *The Budgetary Treatment of an Individual Mandate to Buy Health Insurance*, CBO Memorandum (August 1994).

the government would exercise much more control over the mandatory purchases than it currently does over any transactions in health insurance markets: enrollment in qualified health plans would be compulsory whereas all purchases of health insurance are now voluntary. Moreover, the government would require plans to offer the mandated coverage on terms that are simply not available now in health insurance markets. Plans would be encouraged to do so because the federal government would create new mechanisms that would establish much more federal control over risk taking in private health insurance markets than exists today.[45] On the other hand, requiring individuals to buy a specific type of insurance would change relatively few features of the health insurance market: health plans would continue as private firms subject to government regulation, individuals and families could choose among health plans and purchase supplementary insurance, and market forces would determine the price of health care services.

CBO's analysis reached no final conclusion about whether the degree of federal control over purchases of health insurance required by those proposals would be sufficient to justify including the transactions in the budget. The question of whether the federal budget should include an activity mandated by federal law but performed by the private sector is harder to answer when the government requires individuals to perform and finance the activity than when it requires a legally separate entity to do so.

Mandatory Payments to Privately Administered PRAs

Under a system requiring mandatory payments to privately administered PRAs, the financial services markets would continue to function much as they do today. Private firms would offer investment services subject to federal regulation, individuals could choose how to invest the funds in their accounts, and market forces would determine the returns on those investments. Nonetheless, the mandatory nature of the deposits made by individuals would justify recording the payments in the budget as receipts and outlays at the time they were made.

Mandatory payments to PRAs would closely resemble Social Security payroll tax payments. Each nonexempt worker would have to establish and make payments to an account. Federal law would determine to the penny the amounts of each worker's payments. Thus, the government would exercise complete control over

45. For example, under the Health Equity and Access Reform Today Act of 1993, S. 1770, 103rd Cong., 1st sess. (1993), health plans would have had to participate in a risk-adjustment program established by a state or the federal government. Such a program would have required health plans whose costs were low because they enrolled few individuals who were in poor health to share a portion of their revenues with plans whose costs were high because they enrolled many such individuals. In current health insurance markets, health plans bear the risk associated with covering enrollees.

the payments, which would justify recording them as receipts in the budget.[46] Simultaneously recording the equivalent amount of payments as outlays would account for the transfer of the funds into the PRAs.

In CBO's view, PRAs would be privately owned under many of the Social Security reform proposals made during the 105th Congress that mandate payments to privately administered accounts. The accounts would be privately owned because each individual would have the sole property right in his or her PRA, federal control over the use and disposition of the accounts would be sufficiently limited, and the amounts of federal benefits to which each individual was entitled, under any statute, would not expressly depend on the balance of his or her account. Because the PRAs would be privately owned, the outlays recorded when mandatory payments to them were made would record the transfer of federal funds to the private sector (see Figure 2 on page 16). If the compulsory payments were in addition to Social Security payroll taxes, the proposals would increase federal receipts and outlays by the amount of the payments but would have no effect on any total budget surplus. If the mandatory payments replaced Social Security payroll taxes, total federal receipts would not change, total outlays would increase, and any budget surplus would decline.[47]

Many people would offset some of the cost of mandatory payments to PRAs by lowering the amounts that they voluntarily contribute to defined contribution pension plans or IRAs or by reducing other private saving to maintain their current consumption. That might arguably be a reason to exclude the mandatory payments from the federal budget; however, the federal government conducts many activities (for example, the Social Security program) that displace private activities to some degree. Making such displacement a basis for determining the budgetary treatment of legislation would diminish the distinction between government and private activities and undermine the rationale for treating mandatory payments collected by the government as governmental receipts. The degree of federal control over mandatory payments to PRAs would be sufficient to make those payments fundamentally different from voluntary private saving.

46. Federal control of financial markets would probably also increase, since the government would most likely impose new restrictions on private financial institutions that offered PRAs. For example, under the Personal Retirement Accounts Act of 1997, H.R. 2768, 105th Cong., 1st sess. (1997), the Securities and Exchange Commission would insure the balances of PRAs administered by qualified financial institutions and finance that insurance by levying risk-based assessments on those institutions.

47. Any CBO estimate of the direct costs of a mandate requiring workers to make payments to privately administered PRAs would include the direct costs to the private sector of administering the accounts.

Tax Payments Directed to Privately Administered PRAs

Like mandatory payments to privately administered PRAs, Social Security payroll tax or federal income tax payments that workers choose to direct to such accounts should be included in the budget. Allowing workers to direct either type of tax payments to such accounts would not change the amount of taxable income that each worker owed to the federal government.[48] Recording the amount of payments that workers directed to PRAs as receipts would reflect the degree of federal control. If the accounts were privately owned, recording an equal amount of payments as outlays would reflect the transfer of the funds into private hands (see Figure 2 on page 16). That budgetary treatment would increase total federal outlays and reduce any total budget surplus by the amount of tax payments so diverted.

Proposals Under Which the Ownership of Privately Administered PRAs Has Not Been Determined

In CBO's judgment, the appropriate budgetary treatment of privately administered PRAs under four bills introduced in the 105th Congress (H.R. 2768, H.R. 2929, H.R. 3082, and H.R. 3560) and the Feldstein/Samwick proposal depends on the relative size of the federal and private property interests in the accounts (see Box 1 on page 18). Under those proposals, the benefits to which individuals are entitled under federal law depend on the balance in their PRA. To determine the budgetary treatment of a specific proposal, CBO would have to assess the distribution of the federal and private property interests in workers' accounts. If PRAs under a proposal are deemed to be federally owned, the budget should include them; in that case, the outlays would record a transfer of funds to a federal fund that would record the accounts' transactions. As noted above, the budgetary treatment of federal investment in private securities is an unsettled issue of federal budget concepts. Figure 3 on pages 20 and 21 shows the two ways identified by CBO in which the budget could record the fund.

A Separate Budgetary Category for Mandatory Payments to PRAs

Whether PRAs are federally or privately administered, the budget should distinguish mandatory payments to them from other receipts and outlays and show them separately within the budget. A system of PRAs funded with mandatory payments of between 2 percent and 5 percent of the Social Security payroll tax base would be a

48. The amount of each worker's taxable income owed to the government would change if Social Security payroll tax payments directed to PRAs were deductible or if the payroll tax rate was decreased or increased.

very large federal program. A separate budgetary accounting would clarify the nature and size of the program and its effect on total federal receipts and outlays, as would displaying in a separate budgetary category any Social Security payroll or income tax payments that workers directed to PRAs.

CONCLUSION

Mandatory payments to federally administered PRAs should be recorded in the budget as governmental receipts and outlays at the time they are made, consistent with guidance provided by the *Report of the President's Commission on Budget Concepts* and budgetary precedent. In addition, mandatory payments to privately administered accounts should be recorded in the budget the same way, on the basis of the degree of federal control over the transactions. If either federally or privately administered PRAs were privately owned, as they would be under many proposals made during the 105th Congress, the accounts would be nonbudgetary and the outlays would represent a transfer of funds into private hands. Under that treatment, proposals that replaced the current Social Security payroll taxes with mandatory payments to privately owned PRAs would not increase total federal receipts, but they would increase total federal outlays and reduce any total budget surplus by the amount of such payments. Proposals that required compulsory payments to privately owned accounts as well as the current level of payroll taxes would increase total receipts and outlays by equal amounts and would therefore have no net effect on any total budget surplus.

In addition, any Social Security payroll tax or federal income tax payments that workers chose to direct to privately administered, privately owned PRAs should be recorded as receipts, and the transfers to the accounts should be shown as outlays. If the accounts were privately owned, the outlays would represent a transfer of funds into private hands. Under that treatment, such proposals would increase total federal outlays and decrease any total budget surplus.

The federal government could have an ownership interest in PRAs that was sufficient to merit including them in the budget. If the accounts were deemed to be federally owned, outlays recorded when funds were deposited into them would represent a transfer of money to a federal fund. The fund would also record all other transactions of the PRAs. The budgetary treatment of federal investment in private securities—whether by a PRA fund, the Social Security trust funds, or another program—is an unsettled issue, one of many that should be considered as part of the broad question of whether the federal government should make such investments.

TABLE 2. BUDGETARY TREATMENT OF PERSONAL RETIREMENT ACCOUNTS PROPOSED DURING THE 105th CONGRESS

Method for Making Payments to PRAs	Proposals	Treatment of Payments into the Accounts	Treatment of the Accounts Themselves
	Federally Administered Accounts		
Require Workers to Make Payments to PRAs	AC Individual Accounts Plan	Receipts and outlays	Nonbudgetary
	NCRP Proposal[a]	Receipts and outlays	Nonbudgetary
	H.R. 4256 (Kolbe)[a]	Receipts and outlays	Nonbudgetary
	S. 321 (Gregg)[b]	Receipts and outlays	Nonbudgetary
	S. 2313 (Gregg)[a]	Receipts and outlays	Nonbudgetary
Allow Workers to Contribute Voluntarily to PRAs from Their Own Funds	NCRP Proposal[a]	Nonbudgetary	Nonbudgetary
	Ball Proposal	Nonbudgetary	Nonbudgetary
	H.R. 1611 (Petri)	Nonbudgetary	Not determined
	H.R. 4076 (Petri)	Nonbudgetary	Not determined
	H.R. 4256 (Kolbe)[a]	Nonbudgetary	Nonbudgetary
	S. 1792 (Moynihan)[b]	Nonbudgetary	Nonbudgetary
	S. 2313 (Gregg)[a]	Nonbudgetary	Nonbudgetary
Require the Federal Government to Contribute to PRAs	H.R. 1611 (Petri)	Outlays	Not determined
	H.R. 3456 (Kasich)	Outlays	Nonbudgetary
	H.R. 4076 (Petri)	Outlays	Not determined
	S. 2184 (Kerrey)	Outlays	Nonbudgetary
	S. 2369 (Roth)	Outlays	Nonbudgetary
	Privately Administered Accounts		
Require Workers to Make Payments to PRAs	AC Personal Security Accounts Plan	Receipts and outlays	Nonbudgetary
	CED Proposal	Receipts and outlays	Nonbudgetary
	Kotlikoff and Sachs Proposal	Receipts and outlays	Nonbudgetary
	H.R. 2768 (Sanford)	Receipts and outlays	Not determined
	S. 321 (Gregg)[b]	Receipts and outlays	Nonbudgetary
Allow Workers to Direct Their Payroll or Income Tax Payments to PRAs	H.R. 2768 (Sanford)	Receipts and outlays	Not determined
	H.R. 2929 (Porter)	Receipts and outlays	Not determined
	H.R. 3560 (Smith)	Receipts and outlays	Not determined
	H.R. 3683 (Sessions)	Receipts and outlays	Nonbudgetary
Allow Workers to Contribute Voluntarily to PRAs from Their Own Funds	H.R. 2768 (Sanford)	Nonbudgetary	Not determined
	H.R. 2929 (Porter)	Nonbudgetary	Not determined
	H.R. 3082 (Smith)	Nonbudgetary	Not determined
	H.R. 3560 (Smith)	Nonbudgetary	Not determined
	S. 1792 (Moynihan)[b]	Nonbudgetary	Nonbudgetary
Require the Federal Government to Contribute to PRAs	Kotlikoff and Sachs Proposal	Outlays	Nonbudgetary
	H.R. 2768 (Sanford)	Outlays	Not determined
	H.R. 2929 (Porter)	Outlays	Not determined
	H.R. 3082 (Smith)	Outlays	Not determined

(Continued)

TABLE 2. CONTINUED

Method for Making Payments to PRAs	Proposals	Treatment of Payments into the Accounts	Treatment of the Accounts Themselves
	Administration Not Specified		
Require Workers to Make Payments to PRAs	Altig and Gokhale Proposal	Receipts and outlays	Nonbudgetary
Allow Workers to Direct Their Payroll or Income Tax Payments to PRAs	Feldstein and Samwick Proposal	Receipts and outlays	Not determined

SOURCE: Congressional Budget Office.

NOTES: Names in parentheses are those of the bill's sponsor.

PRA = personal retirement account; AC = Advisory Council on Social Security; NCRP = National Commission on Retirement Policy; CED = Committee for Economic Development.

a. H.R. 4256 and S. 2313 would implement the NCRP proposal.

b. S. 321 and S. 1792 would give workers the option of having either the federal government or private firms administer PRAs.

CBO's conclusions about the appropriate budgetary treatment of each Social Security reform proposal involving PRAs made during the 105th Congress are summarized in Table 2. CBO's views are not binding, however; decisions about the ultimate budgetary treatment of payments to PRAs and of the accounts themselves are up to the Congress and the President.

The budgetary treatment of PRAs indicates only the degree of federal control over payments to the accounts and whether the accounts are privately owned. To evaluate or make decisions about Social Security reform proposals involving PRAs, policymakers need to consider many issues other than budgetary treatment. Such issues include how each proposal would affect the nation's economy and how it would meet the social objectives of the Social Security program. Such an assessment requires information about each proposal's short- and long-term effects on federal receipts and outlays, work incentives, private saving, economic growth, and the distribution of income.

APPENDIX: SOCIAL SECURITY REFORM PROPOSALS INVOLVING PRAs MADE DURING THE 105TH CONGRESS

A variety of Social Security reforms involving personal retirement accounts (PRAs) were proposed during the 105th Congress, which was in session in 1997 and 1998. They include 14 bills introduced in the Congress as well as proposals by the Advisory Council on Social Security, several private groups, and various individuals. This appendix summarizes the features of the reform proposals that are relevant to analyzing the budgetary treatment of PRAs. Those features include the method for making payments to the accounts, whether the government or the private sector would administer them, whether Social Security payroll taxes would be affected, how withdrawals from the accounts would occur, and whether benefits under the current Social Security system would change.

H.R. 1611 and H.R. 4076, Sponsored by Congressman Petri

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. For each individual born after June 30, 1998 (H.R. 1611), or June 30, 1999 (H.R. 4076), the federal government would create a federally administered PRA and deposit $1,000 into the account. Account holders (or their parents on their behalf) could voluntarily contribute up to $7,000 a year to their PRAs. Social Security payroll tax rates would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. Account balances would be used first to pay Social Security benefits owed to account holders at retirement (or survivor benefits, if account holders died before becoming eligible to retire). If the balance in an account was more than enough to pay benefits for the rest of the person's life, there would be several ways to convert the excess into an annuity.

H.R. 2768, Sponsored by Congressman Sanford

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. People entering the workforce in 2000 or later would be required to pay 4 percent of income subject to the Social Security payroll tax to privately administered PRAs, and employers would match those payments. The self-employed would pay 8 percent of such income. Workers employed before 2000 could make an irrevocable choice to make mandatory payments to PRAs rather than pay an equivalent portion of payroll taxes. Employees could make additional voluntary contributions up to the existing limits that the Internal Revenue Service (IRS) imposes on contributions to a defined contribution account. If the balance of an individual's PRA at the full retirement age was insufficient to purchase an annuity that, when combined with his or her expected future Social Security benefits, would provide total annual benefits of

$9,150 in 2000 dollars, the person would be entitled to supplemental retirement benefits from the general fund of the Treasury. The supplemental benefits would ensure that the account balance was sufficient to provide the minimum level of total benefits. Social Security payroll tax rates would be reduced. The percentage of income that workers and employers would pay in payroll taxes and mandatory PRA payments would increase by a total of 0.7 percentage points.

Withdrawals from PRAs and Effect on Social Security Benefits. No withdrawals would be permitted before age 62. A participant between age 62 and the full retirement age could make withdrawals as long as the account balance was sufficient, in combination with expected Social Security benefits, to finance a minimum annuity (paying $9,150 in 2000 dollars). After the full retirement age, individuals could make withdrawals as above or purchase a minimum annuity. Current Social Security benefits would be reduced or eliminated.

H.R. 2929, Sponsored by Congressman Porter

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers could make an irrevocable choice to direct 5 percent of income subject to the Social Security payroll tax to privately administered PRAs. Those payments would be matched by equal payments from employers. The self-employed could elect to direct 10 percent of such income to the accounts. The payroll tax payments of participants would be reduced by the same amounts. Workers could make additional voluntary contributions of up to 20 percent of gross income. If at age 62 a person did not have enough in his or her account to purchase a minimum annuity, the government would make a payment to bring that balance up to the level required to finance such an annuity. The minimum annuity would equal 95 percent of the Social Security benefit the person would have received if he or she had remained in the current system (as adjusted for inflation), subject to a cap of 40 percent of average indexed monthly earnings.

Withdrawals from PRAs and Effect on Social Security Benefits. Trustees of PRAs would use account balances to purchase private insurance for disability and postretirement survivor benefits for participants. A participant retiring at age 59½ or older could use the account balance to purchase an annuity or finance regular periodic withdrawals, as long as the account balance was sufficient to finance a minimum annuity. Benefits under the current Social Security system would be eliminated.

H.R. 3082, Sponsored by Congressman Nick Smith

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. The government would reallocate a portion of Social Security payroll tax payments to privately administered PRAs. Through 2016, the reallocated amounts would range from about 2.5 percent to about 2.8 percent of each worker's income subject to the Social Security payroll tax; thereafter, the amounts would be determined annually by the Social Security trustees such that the remaining payroll tax receipts would allow the trust funds to maintain a reserve equal to six months' worth of expenditures. Payroll tax rates would not change. The accounts of workers participating in the new system would also be credited with an equal prorated share of one-third of any total federal budget surpluses. In addition, workers could voluntarily contribute up to $2,000 annually to their account.

Withdrawals from PRAs and Effect on Social Security Benefits. Funds could be withdrawn after beneficiaries turned age 59½ or qualified for disability benefits. Various annuity options would be available. If the annuity based on a participant's payroll tax reallocations (adjusted for inflation in wages) plus interest at 3.7 percent was less than the Social Security benefit to which he or she would be entitled under the current system, the participant would receive the difference.

H.R. 3456, Sponsored by Congressman Kasich

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Eighty percent of the unified budget surplus in a fiscal year would be allocated in equal shares to federally administered PRAs of people who earned four quarters of Social Security coverage in the year in which the surplus occurred. Social Security payroll taxes would not be affected.

Withdrawals from PRAs and Effect on Social Security Benefits. The balance in an account would be withdrawn when a person became eligible to receive Social Security benefits. The balance would be paid either in equal annual installments over the participant's expected life or in the form of an immediate annuity. Balances of $3,500 or less could be withdrawn in full immediately. Benefits under the current Social Security system would not change.

H.R. 3560, Sponsored by Congressman Nick Smith

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers and self-employed individuals ages 16 to 20 could elect to participate in a privately administered PRA pilot program. The government would deposit into

each participant's account an amount equal to 2.5 percent of income subject to the Social Security payroll tax for each year of the decade ending January 31, 2009. The payroll tax paid by participants would be reduced by an equal percentage. The number of participants would be limited so that the total cost of the pilot program in fiscal year 1999 would not exceed the total budget surplus in fiscal year 1998. Workers could also voluntarily contribute up to $2,000 annually to their account.

Withdrawals from PRAs and Effect on Social Security Benefits. Funds could be withdrawn after beneficiaries turned age 59½ or qualified for disability benefits. Various annuity options would be available. A participant's Social Security benefits would be reduced by the monthly amount of an immediate life annuity based on 50 percent of all amounts paid to the participant's PRA.

H.R. 3683, Sponsored by Congressman Sessions

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers could elect to pay 6.2 percent of income subject to the Social Security payroll tax to privately administered PRAs, in lieu of paying that portion of the payroll tax. After a worker exercised that option, he or she could reverse the decision at any time during the next five years. Employers would pay their share of the payroll tax for 15 years for a worker who had opted to contribute to a PRA; they would then contribute that share to the employee's account.

Withdrawals from PRAs and Effect on Social Security Benefits. There would be no prohibition on withdrawals before retirement. However, withdrawals after age 59½ or at any time to pay for a qualified long-term health insurance contract, disability insurance, or term life insurance would not be included in a worker's gross income for the purpose of calculating federal income tax liability. All other withdrawals before age 59½ would be included in gross income and be subject to an additional tax of 20 percent. Social Security benefits would be eliminated for workers electing to make payments to PRAs.

H.R 4256, Sponsored by Congressmen Kolbe and Stenholm, and S. 2313, Sponsored by Senators Breaux and Gregg (to Implement the National Commission on Retirement Policy's Proposal)

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Two percentage points of the Social Security payroll tax on workers under the age of 55 would be replaced with equivalent mandatory payments into federally administered PRAs. Workers would be allowed to make additional, voluntary contributions to their account of up to $2,000 (indexed for inflation after 2000) per year.

Withdrawals from PRAs and Effect on Social Security Benefits. Withdrawals would be permitted on or after the earlier of two dates: the date on which an individual reaches retirement age or the date on which the person's PRA has a balance sufficient to provide annuity payments over his or her expected life that, when added to expected Social Security benefits, would equal or exceed the poverty line. The excess of an account balance above the amount necessary to provide such annuity payments would be payable to the account holder. Starting in 2006, Social Security benefits for new retirees would at a minimum equal a certain percentage of the poverty line.

S. 321, Sponsored by Senator Gregg

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers would be required to pay 1 percent of income subject to Social Security payroll taxes to federally or privately administered PRAs. Payroll taxes would be reduced by an equal percentage.

Withdrawals from PRAs and Effect on Social Security Benefits. No withdrawals would be permitted before age 59½ except for death and disability. There would be no restrictions thereafter. Benefits under the current Social Security system would be reduced.

S. 1792, Sponsored by Senators Moynihan and Kerrey

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers could voluntarily contribute 1 percent of income subject to the Social Security payroll tax to federally or privately administered PRAs. Each worker's employer would match the worker's contributions. Social Security payroll taxes paid by all workers and employers would be reduced through 2024 and increased thereafter.

Withdrawals from PRAs and Effect on Social Security Benefits. Withdrawals could be made after individuals began to receive Social Security benefits or after their death. Benefits under the current Social Security system would be reduced.

S. 2184, Sponsored by Senator Kerrey

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. The government would make payments to federally administered PRAs established for individuals born after 1998. The initial contribution would be $1,000, with later

contributions of $500 on each of the person's first five birthdays after 2001; individuals born in 1997 and 1998 would receive only the $500 contributions. After 2008, the contribution amounts would be indexed to inflation. Social Security payroll taxes would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. Withdrawals could be made on or after the date on which a person began to receive Social Security benefits or died. Current Social Security benefits would not change.

S. 2369, Sponsored by Senator Roth

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. The government would allocate specific amounts, beginning at $31.5 billion and rising to $68 billion in fiscal year 2003, to the federally administered PRAs of workers who had earned the minimum amount needed for four quarters of Social Security coverage. The contribution to each worker's account would be based on the amount of his or her earnings, with each account receiving a minimum contribution of $250. Social Security payroll taxes would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. Withdrawals could be made on or after the date on which a person began to receive Social Security benefits or died. Withdrawals could be made as an annuity or as equal payments over a period that would not exceed the life expectancy of the individual or the joint life expectancies of the individual and his or her designated beneficiary. Current Social Security benefits would not change.

Altig and Gokhale Proposal

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers below age 30 in 2000 would be required to pay 2.64 percent of income subject to the Social Security payroll tax to PRAs. Employers would make equivalent payments to the accounts. Payroll taxes would be reduced by the same amounts. The administration of the accounts is unspecified.

Withdrawals from PRAs and Effect on Social Security Benefits. The proposal does not specify how withdrawals would be made. Current Social Security benefits would be eliminated.

Ball Proposal

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers could voluntarily contribute up to 2 percent of income subject to the Social Security payroll tax to federally administered PRAs. Payroll taxes would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. The rules regarding withdrawals would be the same as for nondeductible individual retirement accounts. Current Social Security benefits would be reduced.

Committee for Economic Development Proposal

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers and employers would be required to make payments equal to 1.5 percent of income subject to the Social Security payroll tax to privately administered PRAs. The mandatory payments for the self-employed would be 3 percent of such income. Payroll taxes would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. Rules applicable to PRAs would ensure that participants withdrew funds gradually over their retirement. Current Social Security benefits would be reduced.

Feldstein and Samwick Proposal

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Individuals could take a dollar-for-dollar income tax credit for any amounts that they voluntarily contributed to a PRA, with the credit limited to 2 percent of income subject to the Social Security payroll tax. For people with income tax liabilities of less than 2 percent of earnings, the credit would be refundable. The administration of the accounts is unspecified. The payroll tax would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. At retirement, accumulated PRA balances could be annuitized or withdrawn in a series of payments. Social Security benefits would be reduced by up to 75 cents for each dollar withdrawn from the accounts. Thus, retirees would keep at least 25 percent of their PRA savings in addition to the Social Security benefits that they would receive under current law.

Kotlikoff and Sachs Proposal

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Social Security's Old-Age Insurance payroll tax (about 70 percent of the total Social Security tax) would be replaced with equivalent mandatory payments to privately administered PRAs. Each married worker's payments would be split equally between husband and wife before being deposited in each spouse's account. The government would match payments by low-income workers (the matching payments would decrease with income) and would make payments through age 65 for disabled workers. Those payments would be financed with a value-added tax or a federal retail sales tax.

Withdrawals from PRAs and Effect on Social Security Benefits. At age 65, a person's PRA balance would be pooled with those of other members of that age cohort. For each cohort member, the government would purchase a single-life annuity, indexed for inflation, in proportion to his or her account balance. Current Old-Age Insurance benefits would be reduced for current workers and eliminated for new ones.

National Commission on Retirement Policy Proposal (Introduced as H.R. 4256 by Congressmen Koble and Stenholm and as S. 2313 by Senators Breaux and Gregg)

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Two percentage points of the Social Security payroll tax on workers would be replaced with equivalent mandatory payments into federally administered PRAs. The payroll tax would be reduced by an equal percentage. Workers would be allowed to make additional, voluntary contributions to their account of up to $2,000 a year (indexed for inflation).

Withdrawals from PRAs and Effect on Social Security Benefits. No withdrawals could be made before retirement, except in the event of death or disability. Upon retirement, individuals would be required to annuitize the portion of their PRA balances that, when added to their Social Security benefit, would provide an income comfortably above the poverty level. Individuals could choose among several annuity options. Current Social Security benefits would be reduced but, starting in 2010, could not fall below a specific percentage of the poverty level.

Advisory Council on Social Security Personal Security Accounts Plan

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Five percentage points of the current Social Security payroll tax would be replaced with

equivalent mandatory payments to privately administered PRAs. The payroll tax for workers would be reduced, but by a lesser amount, through 2069.

Withdrawals from PRAs and Effect on Social Security Benefits. A person could begin withdrawing funds at age 62. Annuitization would not be required. Any funds remaining in the account at death could be included in the individual's estate. Current Social Security benefits would be eliminated for workers who were under age 25 in 1998 and reduced for others. A new, flat benefit would replace or augment current benefits.

Advisory Council on Social Security Individual Accounts Plan

Payments to PRAs, Administration of Accounts, and Effect on Payroll Taxes. Workers would be required to make payments equal to 1.6 percent of income subject to the Social Security payroll tax to federally administered PRAs. The payroll tax would not change.

Withdrawals from PRAs and Effect on Social Security Benefits. When people retired at age 62 or later, the government would convert their PRA balances to single or joint minimum-guarantee annuities that were indexed for inflation. Current Social Security benefits would be reduced gradually.